

ECONOMICS DURING THE LINCOLN ADMINISTRATION

War Debt

- Increased by about \$2 million per day by 1862
- Secretary of the Treasury Chase originally sought to finance the war exclusively by borrowing money.
- The high costs forced him to include taxes in that plan as well.
- Loans covered about 65% of the war debt.
- With the help of Jay Cooke, a Philadelphia banker, Chase developed a war bond system that raised \$3 billion and saw a quarter of middle class Northerners buying war bonds, setting the precedent that would be followed especially in World War II to finance the war.

Morrill Tariff Act (1861)

- Proposed by Senator Justin S. Morrill of Vermont to block imported goods
- Supported by manufacturers, labor, and some commercial farmers
- Brought in about \$75 million per year (without the Confederate states, this was little more than had been brought in the 1850s)

Revenue Act of 1861

- Restored certain excise tax
- Levied a 3% tax on personal incomes higher than \$800 per year
- Income tax first collected in 1862
- First income tax in U. S. history

The Legal Tender Act (1862)

- Issued \$150 million in treasury notes that came to be called greenbacks
- Required that these greenbacks be accepted as legal tender for all debts, public and private (except for interest payments on federal bonds and customs duties)
- Investors could buy bonds with greenbacks but acquire gold as interest



United States Note (Greenback). EarthLink.net. 18 July 2008 <<http://home.earthlink.net/~icepick119/page11.html>>

Revenue Act of 1862

- Excises taxes were extended to everything from billiard tables and yachts to feathers and playing cards.
- Fees set on professionals and tradesmen were also charged.
- It initiated a two-tiered rate structure to compensate for the burden excise taxes placed on the middle class.
 - Taxpayers earning \$600 to \$10,000 yearly were taxed at a rate of 3%.
 - Those earning over \$10,000 yearly were taxed at a rate of 5%.
- The law set a standard \$600 deduction.
- The deductions familiar today for losses and the payment of other taxes were put in place.
- The law established the first withholding system by which employers and those companies paying dividends paid the tax before the wage earners or investors received their pay checks or dividends.
- The tax brought in over \$20 million in 1864.
- It created the first Bureau of Internal Revenue, headed by George Boutwell.

Revenue Act of 1864

- This measure was passed in June.
 - It increased taxes on inheritance, excise taxes, licensing fees, taxes on business taxes, stamp duties and added value manufacturing taxes.
 - The levy on incomes between \$600 and \$5000 increased from 3% to 5%.
 - It increased the tax of incomes between \$5,000 and \$10,000 from 3% to 7.5%.
 - It set a maximum tax rate at 10%.
- The second emergency measure was attached and passed in July.
 - It added 5% to the tax on incomes in excess of \$600.
 - It brought in almost \$61million.
- The Civil War tax system helped stave off the inflation suffered in the South.
- 80 % in the North (comparable to World War II)
- Most taxes were repealed after the war.
- The income tax was abolished in 1872.

For more information on the financing of the war, click on
<http://www.tax.org/museum/1861-1865.htm>

For more on the history of taxes in American, click on
<http://www.treasury.gov/education/fact-sheets/taxes/ustax.shtml>

Higher tariffs

- In the absence of resistance from Southern legislators, Congress raised tariffs to help fund the war effort.

National Banking Act of 1864

- In the first half of the nineteenth century, banks issued their own bank notes – backed by gold or silver – when they made loans.
- By the start of the Civil War, over 10,000 different bank notes were in circulation.
- Congress sought to control the excess of currencies by passing the National Currency Act of 1863.
 - Established a national currency – the dollar
 - Created a national banking system that included nationally and state chartered banks
- Before President Lincoln signed the law, it became the National Banking Act of 1864.

- Created a Comptroller of the Currency to oversee the new banking system
- Authorized a system of national bank examiners
- Allowed banks to be incorporated instead of chartered
- Granted state banks national charters, allowing them to issue national bank notes (not greenbacks)
- Required that one-third of a national bank's capital consist of federal bonds (which backed national notes)
- Motivated bankers to buy war bonds

National Banking Acts of 1865

- Taxes state currencies to eliminate bank notes
- Rate starts at 2% and eventually goes to 10%
- Motivated state banks to seek national charters
- State currencies disappear

Act to Establish a Department of Agriculture (1862)

- Lincoln's Agricultural Beliefs
 - Saw the value of improved technology to replace manual power.
 - Favored increased production through modern science of cultivation
 - Believed laborers who had the potential to become landowners worked more productively than those who could not (slaves).
 - Asserted education increased productivity of labor
- Lincoln signed the Act to Establish a Department of Agriculture on May 15, 1862.
- He named Isaac Newton, the farmer who had previously headed the agricultural section the Patent Office.
- Newton worked with Lincoln's full cooperation and established seven departmental objectives.
 - Managing statistical – and other – information relevant to agriculture
 - Promoting the introduction of new or lucrative plants and animals
 - Serving as a reference source for farmers
 - Evaluating innovative agricultural implements
 - Conducting chemical analyses of soils, grains, fruits, plants, vegetables, and manures
 - Funding a professorship of botany and entomology
 - Creating and maintaining both an agricultural library and a museum

For more information about the history of the Department of Agriculture, click on

<http://www.nal.usda.gov/speccoll/exhibits/lincoln/index.html>

- Throughout the Civil War the Treasury Department controlled the cotton trade in the occupied South.

For more in-depth information on the role of cotton in the Civil War, click on

<http://www.abrahamlincolnclassroom.org/Library/newsletter.asp?ID=132&CRLI=180>

In the South



\$10 Confederate Note. 1864. Wikipedia. 18 July 18 2008 <http://home.earthlink.net/~icepick119/page11.html>

- The Union essentially controlled the cotton market through the blockade
 - The British built blockade runners to smuggle cotton and tobacco out of the South
 - They offered arms and luxuries in trade
 - Union blockaders often captured the runners, sold the goods, and freed the British sailors
- Hyper-inflation reigned due to
 - Shortages of food and other goods as a result of the blockade
 - Foraging by Union forces
 - Confiscation of crops by Confederate forces